Country Analysis Report 2012 – Canada

Country	Premium Development	Claims Development	Underwriting Profitability	Business Outlook
National Report 2012 CANADA	P&C company growth rate, as measured by net written premium, has been one of steady modest increases over the past 5 years. NWP increased from $37 billion in 2008 to $43.2 billion in 2012. Net earned premium (NEP) increased as well, from $35.8 billion in 2008 to $42.6 billion in 2012. For Machinery Breakdown business, which includes boiler explosion and loss of profits, the net earned premium in 2012 was $350 million, a slight increase from 2011's $329 million. The market was stable with little change in rates but there was some competition on the larger accounts that have an extremely good loss ratio. Engineering-related inspection activity is estimated to be $28.5 million for 2012, continuing the general inflationary trends seen in recent years. Automobile insurance, which constitutes by far the largest line of insurance in Canada at $20.4 billion, increased by 4% on a NEP basis over 2011. There was a slight increase of 3% in Commercial Property premiums again in 2012 to $6 billion reflecting what appears to be a bottoming out of decreases on general Commercial accounts. CAR and EAR premiums are not listed as separate lines of business in Canada and are typically included as part of	In 2012, Canada experienced an unprecedented fourth consecutive year of insured weather-related catastrophes at or exceeding the $1 billion mark. The Institute for Catastrophic Loss Reduction (ICLR) considers large loss catastrophe years to be the new normal for Canadian P&C insurers as natural disasters like tornados, flash floods and abnormally heavy rainfall become common in Canada. Overall claims frequency appears to still be declining but the severity of the losses is increasing. On a net losses incurred basis for the P&C business in general, claims decreased slightly coming in at $27.4 billion compared to $27.9 billion in 2011. Property losses (Commercial and Personal lines) decreased to $9.1 billion from $9.5 billion in 2011. Premiums for Personal Property increased 6.4% and claims decreased by 5.7%. On the Commercial side, premium increased 3.3% and claims decreased by 1.8% In 2012, Machinery Breakdown losses decreased from 2011. The B&M claims ratio was 52.3% in 2011 and net claims incurred were $172.2 million. In 2012, the	The Canadian P&C industry wrote $43.2 billion in direct written premium in 2012, up 3.6% from $41.6 billion in 2011. Underwriting expenses, including claims and acquisition costs, amounted to $40.28 billion, an increase from $40.225 billion the previous year. Underwriting income overall was $2.3 billion, up from $745 million in 2011. Investment income was virtually flat at $3.9 billion. Return on equity increased to 11% in 2012, the first time it broke into two-digit territory since 2007. Machinery Breakdown premium for 2012 was up 6.1% over 2011. The claims ratio of 35.85% produced profitable returns with an estimated combined ratio of 84.0%.	The Canadian economy showed momentum in the first quarter of 2013 as energy exports rose and GDP expanded by 2.5 per cent on an annualized basis, a significant increase compared with the 0.9 percent gain in the fourth quarter of 2012. The increase is primarily due to the growth in energy exports, as well as minerals and consumer goods exports. Growth for the remainder of the 2013 is expected to be sluggish however due to weak growth in foreign demand, volatile commodity prices, cautious business investment, restrained government spending and a cooling of the housing market. Growth in the residential housing sector is slowing, probably as a result of Ottawa's move to tighten the country's mortgage lending rules. Housing prices are also decreasing, which will lead to a rise in unemployment in the construction trade. According to Statistics Canada, investment in residential construction fell 2.9%, which is the first decline since first quarter of 2011. Ownership transfer values were -0.5%, down for a fourth consecutive quarter, indicating continued weakness in housing resale activity. The unemployment rate in Canada at the end of June is 7.1%. Job creation averaged 14,000 new jobs per month in the first half of 2013, slower than the average of 27,000 new jobs created in the last six months of 2012. The Bank of Canada's core inflation rate is running at an annualized rate of 1.1% and is expected to stay at this level throughout the year.

	Property (Personal and Commercial lines). It is estimated the premium associated with such contracts for 2012 was $259.7 million, an increase of 8% over the $238.9 million in 2011. Commercial lines insurers have been more profitable than Personal lines insurers for several years now. This trend continued in 2012 with loss ratios improving in eight of 10 provinces. There has been a shift in the Commercial segment as multiline companies competed successfully with pure Commercial players. Machinery Breakdown premiums comprise approximately 6% of the premium spent on Commercial Property insurance, or less than 1% of the total P&C industry writings.	claims ratio returned to its historic range at 35.9% and net claims incurred were $122 million. There has been a steady decline in the claims ratio over the last five years since 2008 when it jumped to 73% with net claims incurred of $209.3 million. As indicated, EAR and CAR business is recorded as Property business in Canada and no separate loss statistics are available.		External factors that will affect the Canadian manufacturing sector include China's economic slowdown, which will affect commodity prices, and the financial situation in Europe, which continues to make business leaders nervous in 2013. Canada's economy is also dependent on the strength of the U.S. recovery. Premium rate increases in nearly all major Commercial and Personal product lines is evidence of a hardening of the market in the P&C industry in Canada following several years of inadequate pricing and severe market competition. The Canadian insurance market saw some stability in 2012 as it outperformed other insurance markets. In 2013, there will be an upward pressure on rates in Canada in catastrophe-exposed areas like British Columbia and Quebec, as well as in other provinces such as Alberta and Ontario that have been affected by numerous storms and flash floods. Rate firming is expected from insurers in the second quarter of 2013 as a result of substantial weather-related claims. Insurers will be reviewing their overall approach to these severe weather conditions across Canada.